ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

EXPORT CREDITS IN THE OECD : ACHIEVEMENTS AND CHALLENGES

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Export Credits and the OECD: Achievements and Challenges

CONTENT

- The export credit rules
- Recent developments
- The financial crisis and export credits
- Challenges for the future

THE RULES FOR EXPORT CREDITS

- Important export financing tool in a number of critical sectors, including:
  - Aircraft
  - Ships
  - Oil and gas
  - Power plants
  - Telecoms
- $60bn per annum medium/long term officially supported export credits
- High potential for export subsidies, if unregulated
- Need for level playing field and avoid credit race

THE RULES FOR EXPORT CREDITS

- First disciplines negotiated in the OEEC in 1950's
  - No GATT rules available
  - Participation of principal providers
- Export credits continue at the OECD
  - Negotiating forum for agreeing the international rules for export credits, albeit soft law
  - Secretariat's active role in drafting and monitoring agreements
  - Transaction-based exchanges on real business
  - Refined and comprehensive database system

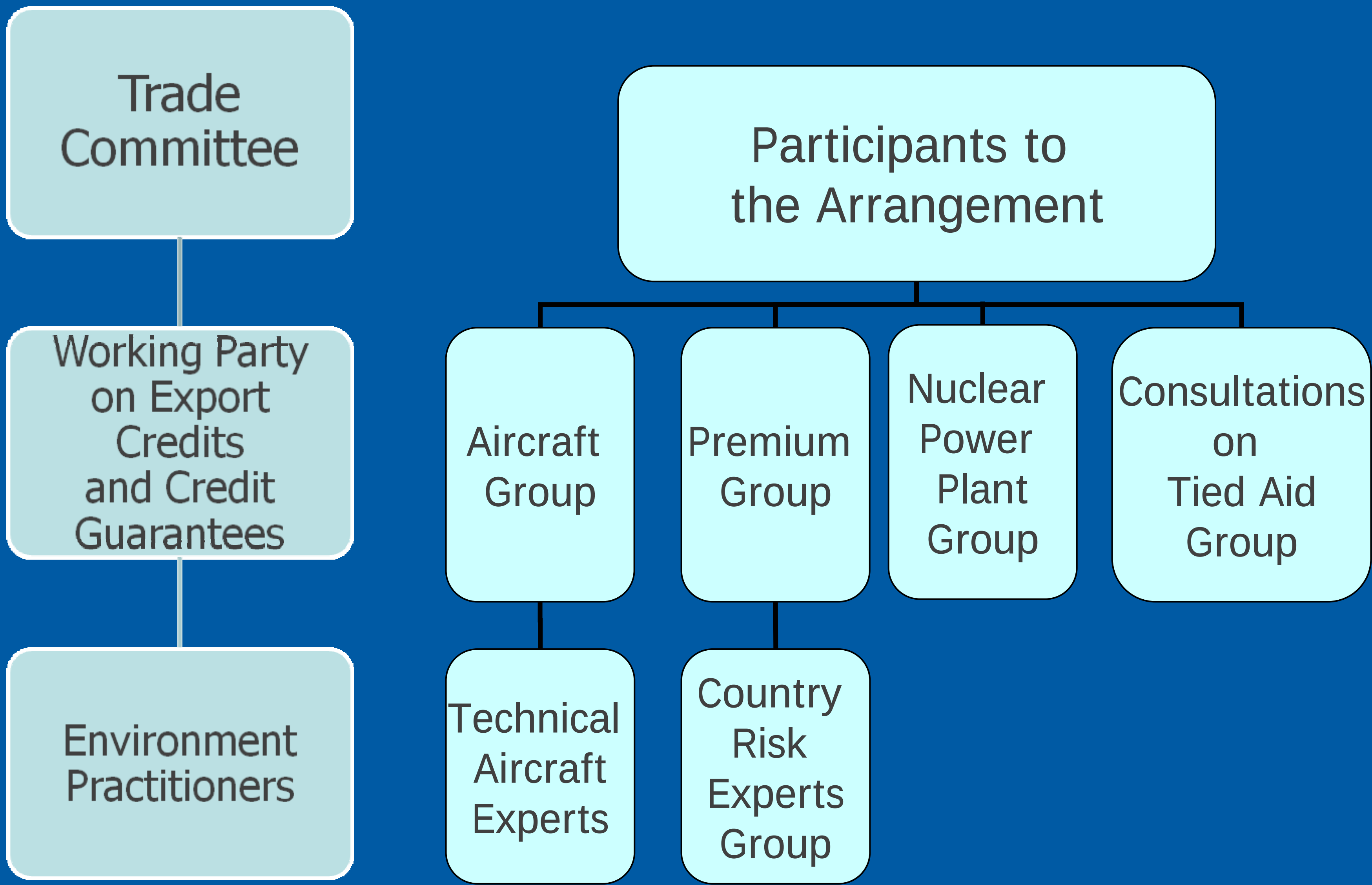
THE RULES FOR EXPORT CREDITS

- OECD Working Party on Export Credits and Credit Guarantees (ECG)
  - Created in 1963 as formal OECD Body.
  - All OECD Members, except Iceland: WTO as observer
  - Objectives
    - policy coherence and enhancement
    - monitoring Members' activities
    - transparency and disclosure

THE RULES FOR EXPORT CREDITS

- The Arrangement on Officially Supported Export Credits
  - Agreed in 1978
  - A Gentleman's Agreement, *i.e. s*oft law, apart from European Community
  - Disciplines strengthened and widened over time
  - Reflects market conditions
  - Recognised under the WTO ASCM as non-prohibited subsidy

THE EXPORT CREDIT COMMITTEES IN OECD



RECENT DEVELOPMENTS

- New OECD Recommendation on Anti-Bribery Measures
- Revised OECD Recommendation on the Environment
- Agreement on Sustainable Lending
- New Aircraft Sector Understanding

NEW OECD RECOMMENDATION ON ANTI-BRIBERY MEASURES

- Background
  - 1997 OECD Convention on bribery in international business transactions
  - In 2000, Members agreed and implemented an Action Statement on anti-bribery measures
  - In 2006, Statement was enhanced and transformed into an OECD Recommendation
  - Review process included input from business, industry, NGOs and banks
  - In 2007, a revised Survey agreed to monitor application of the new Recommendation

NEW OECD RECOMMENDATION ON ANTI-BRIBERY MEASURES

- Key Provisions
  - "No bribery" undertaking is now a prerequisite for obtaining official export credit support
  - Verification of whether the exporter/applicant is listed on the publicly available debarment lists of the major international financial institutions (*e.g.* World Bank Group)
  - Exporters / applicants required to provide, upon demand, details about the amounts and purpose of commissions / fees paid

REVISED OECD RECOMMENDATION ON THE ENVIRONMENT

– Background

- Various agreements on environmental issues since 1998
- Culminating in 2003 in a OECD Recommendation on the environment and export credits
- Review of the Recommendation in 2006, in light of experience and with input from IFIs, business, trade unions, banking associations and NGOs
- Agreement to a revised text in April 2007

REVISED OECD RECOMMENDATION ON THE ENVIRONMENT

- OECD Council adopted the revised Recommendation in June 2007

- Enhancements
  - Scope: both new projects and existing operations
  - International standards: extended to include all ten World Bank Safeguard Policies or, where appropriate, all eight IFC Performance Standards.
  - Transparency: stronger disclosure provisions of project and environmental impact information for Category A projects as early as possible in the review process and at least 30 days before a final commitment.

AGREEMENT ON SUSTAINABLE LENDING

- Principles and Guidelines for Sustainable Lending to Low Income Countries
- Objective
  - To support the World Bank and the International Monetary Fund Debt Sustainability Framework for Low-Income Countries (DSF), by enhancing cooperation between OECD members and these IFIs.

AGREEMENT ON SUSTAINABLE LENDING

- Key Facts
  - The provision of official export credits to public and publicly guaranteed buyers in low income countries should reflect Sustainable Lending practices (lending that supports a borrowing country's economic and social progress without endangering its financial future and long-term development prospects).
  - In February 2008, members agreed to apply principles and guidelines to obtain reasonable assurances that their commercial lending decisions are not likely to contribute to debt distress in the future in relation to any official export credit with a repayment term of one year or more.
  - The Agreement on Sustainable Lending also builds upon the 2000 Agreement on Unproductive Expenditure that members implemented to support the World Bank HIPC Debt Initiative to encourage official support for exports that contributed to the economic developments of the HIPCs.

NEW AIRCRAFT SECTOR UNDERSTANDING

- Status
  - A Gentlemen's agreement – soft law
  - An Annex to the Arrangement on Officially Supported Export Credits
  - Successor agreement to the 1986 Understanding
- Who may apply its provisions
  - All Participants to the Understanding, which includes Brazil
  - Voluntary implementation possible by any non-Participant – transparency provisions can also be used to solve competitive issues

NEW AIRCRAFT SECTOR UNDERSTANDING

- Key Provisions
  - A complete set of disciplines with necessary definitions
  - A robust risk assessment of buyers / borrowers
  - A risk-pricing system bifurcated by aircraft category (large / regional)
  - Efficient consultation and dispute-resolution procedures
  - Provisions to include more players when appropriate

THE FINANCIAL CRISIS AND EXPORT CREDITS

- Possible Impacts
- Past Reactions and Lessons Learned
- OECD Response
- OECD Export Credit Statement

POSSIBLE IMPACTS

- Impact on demand for official support : to be evaluated

- Impact on the competitiveness of ECA products

- Impact on relevance of OECD disciplines

PAST REACTIONS AND LESSONS LEARNT

- Late 1990's: Urgent need for support to mitigate the risks of old nuclear reactors; decisions taken:
  - 12 years repayment terms allowed for the decommissioning of nuclear reactors – more if agreement among the Participants
  - 15 years financing allowed for large modernisation contracts
  - Tied aid financing allowed for the decommissioning of nuclear reactors and to prevent significant risk of nuclear or major industrial accident in five Eastern European countries

- 1997: Asian Financial Crisis :
  - ECAs declared that they remained open for trade finance in difficult market situations

- Tools available for an emergency situation/transaction:
- The Arrangement can be interpreted by agreement, including on-line
- *Ad hoc* agreements for special situations (Common Lines)

PAST REACTIONS AND LESSONS LEARNT

- The OECD export credit groups remain a negotiating forum for governments even in crisis situations

- Disciplines can be adapted/softened, *e.g.* on a temporary or trial basis, with strengthened monitoring

- Whether used or not, the flexibilities agreed in crisis situations are important as a signal to markets/buyers

OECD RESPONSE

- Strategic Response - Contributions to the Global Effort: OECD Unclassified Document C(2008)191/FINAL

- Trade priority is to keep markets open for trade and investment

- Access to official export credit financing recognised as a an essential element for the smooth functioning of the global trading system

- OECD and some non-OECD countries responded with a public Statement in November 2009 on export credits and the financial crisis

OECD EXPORT CREDIT STATEMENT

- Member countries and Brazil, Estonia, India, Israel, Romania, the Russian Federation and Slovenia confirmed their strong commitment to continue to be reliable partners to exporters and financing banks and expressed their determination to maintain their export credit support and ensure that sufficient capacity would be available with the aim of supporting international trade flows, in line with sound underwriting principles and within the limits of their respective international obligations.

- This pledge was a contribution to the fulfilment of one of the undertaking in the declaration by leaders of the G20 countries at the summit on financial markets and the world economy held in Washington on 15 November, *i.e.* help emerging and developing economies gain access to finance in current difficult financial conditions, including through liquidity facilities and programme support.

- The Statement also noted that, during previous financial crises, governments developed experience of expedient and coordinated use of their schemes for official export credits and were now utilising this experience to limit the impact of the present crisis on the financing of trade transactions in the world and that they were closely monitoring developments, exchanging information and taking appropriate measures as deemed necessary and in accordance with their respective international obligations.

OECD EXPORT CREDIT STATEMENT

- To this end, in January 2009, OECD countries agreed two modest adjustments to the export credit rules:

  – to extend to ten years (from 8.5) the repayment term for a larger number of countries (typically emerging markets); and

  – to allow a 50% (instead of 35%) share of participation in state-guaranteed credits in intra-OECD large project-finance transactions; this is a temporary measure for one year and is expected to contribute to the avoidance of postponing or cancelling large infrastructure projects absent lack of private funding, thereby contributing to the recovery/stimulus plans announced in many OECD countries.

CHALLENGES FOR THE FUTURE

- Maintaining relevance of the all export credit instruments, in the evolving market environment and in the situation of crisis
- Monitoring members' compliance with the export credit instruments
- Adapting to growing interest in sustainable development issues
- Promoting a level playing-field in export credit and trade-related aid disciplines
- Increasing the inclusiveness with competitors outside the OECD Membership, in the context of the OECD Council's 2007 decisions on enlargement and enhanced engagement

CHALLENGES FOR THE FUTURE

Review of three sets of disciplines in 2009

- Sector Understanding on Export Credits for Nuclear Power Plants
  - growing demand for nuclear reactors, both in OECD countries and outside
  - competition with high potential for export subsidies, if unregulated
  - 1984 Sector Understanding disciplines to be updated to reset the level playing field and avoid credit race

- Disciplines applicable to Renewable Energies and Water Projects
  - Temporary disciplines agreed in 2005, to be reviewed in 2009
  - Mostly used for financing hydro-power and wind-power projects

- Sector Understanding on Export Credits for Ships

Buyer Risk Premium

CHALLENGES FOR THE FUTURE

Widening the level playing field

- Competitors outside the OECD membership
- OECD Accession countries: Chile Estonia, Israel, Russia and Slovenia
- OECD Enhanced Engagement Countries : Brazil, China, India, Indonesia and South Africa

THANK YOU

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